

A Different Perspective on the Economics of Y2K Fear

By: [Andrew Brod](#)

Brod, Andrew (1999). A Different Perspective on the Economics of Y2K Fear. *Greensboro News & Record*, December 26, 1999

Made available courtesy of Dr. Andrew Brod and Greensboro News & Record: <http://www.news-record.com/>

***** Note: Figures may be missing from this format of the document**

Article:

When you saw the headline, you probably thought this column would be about the cost to the U.S. economy of fixing the Y2K computer problem. Or about the economic impact of the businesses eager to help protect us against computer failures and rampaging mobs.

But I've been thinking about another angle to this Y2K thing. Economists are fundamentally interested in human behavior, in how people make choices and react to the environment around them. So I've been thinking about what sorts of behavior my fellow humans will exhibit a few days from now.

To me, the most important thing about December 31 is that it's my 40th birthday. Now *that's* a Y2K problem. But most people will have other concerns. For example, Christian millennialists are anticipating the Second Coming. And everyone's wondering what will happen the moment the year 2000 begins.

Note that I didn't say "the moment the new millennium begins." That won't happen until next year. But most people seem to think the millennium ends this year, and in fact, that's what this column is about: sometimes it doesn't matter what the truth is, it's what people *think* the truth is.

Self-fulfilling prophecies are not unknown in economics. If everyone thinks the stock market will rise next year and accordingly buys stocks now, then stock-market indexes will indeed go up. If everyone believes a bank is insolvent and rushes to withdraw all deposits, then the bank run will ensure the bank's failure.

And if everyone believes that computing will be harder without Microsoft Windows and consequently buys Intel/Windows machines, then "network externalities" will act to make that belief come true.

How does this relate to Y2K? It appears that many of the difficulties we're likely to experience next weekend will be related to human behavior, not technology *per se*. The director of the Federal Emergency Management Agency said this month, "People panicking could cause more of a problem than Y2K itself."

If everyone picks up his or her phone at 12:01 a.m. on January 1 out of a fear that "Y2K" will zap telephone service, then sure enough, many of us will hear no dial tone.

If everyone flushes their toilets shortly after midnight on Friday out of a fear that water service will be affected by Y2K, then sure enough, the water pressure won't be as strong as usual.

And if everyone turns on all their electrical appliances at 12:01 to make sure they're all still working, then sure enough, some of us will experience brown-outs.

Of course, if everyone had done these things on, for example, August 12, the same results would have happened. Everyone checking their phones at once will ensure that some won't hear dial tones. Everyone flushing their toilets at once will reduce water pressure. Everyone running all their electrical appliances will push the power grid to its limit.

As the Y2K project manager for the city of Chicago put it, “The system is not meant for everyone to do the same thing at the same time.”

What will be interesting is how people react to the apparent glitches. In economics, self-fulfilling prophecies that are completely out of whack with reality are ultimately reversed.

Even the famous and bizarre tulip-speculation craze of 17th-century Holland finally ended when people came to their senses, and said collectively, “Hey, these are just tulip bulbs!” Financial pessimists claim the same reckoning is due for the U.S. stock market.

But the correction can take time, and what’s intriguing about Y2K is that it’s a one-shot deal. Nobody’s talking about “Y2K panic” lasting long into the new year. Eventually (one would hope by the next day), people will realize that civilization hasn’t ended. By then, they’ll be chuckling about the dial tone that didn’t.

But what will happen on New Year’s Eve and early New Year’s Day? I can’t wait to find out. I’ll check CNN from time to time unless the electricity goes out. I certainly hope nobody gets hurt. And I’ll try not to pick up the phone at midnight.